

CITY OF CLARION, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

- Prepared By -

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CITY OF CLARION, IOWA

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CITY OF CLARION, IOWA

OFFICIALS

(Before January 2016)

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------|--------------------------|----------------------------|
| Mike Nail | Mayor | January 2018 |
| Duane Asbe | Mayor Pro tem | January 2018 |
| Steve Evans | Council Member | January 2016 |
| Lindsey German | Council Member | January 2016 |
| Barbara Mussman | Council Member | January 2018 |
| Dave Maxheimer | Council Member | January 2018 |
| Dustin Rief | City Administrator/Clerk | Indefinite |
| Susan Hammen | Treasurer | Indefinite |
| Rich Bordwell | Attorney | January 2016 |

(After January 2016)

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------|--------------------------|----------------------------|
| Mike Nail | Mayor | January 2018 |
| Duane Asbe | Mayor Pro tem | January 2018 |
| Barbara Mussman | Council Member | January 2018 |
| Dave Maxheimer | Council Member | January 2018 |
| Josh Diamond | Council Member | January 2020 |
| Andy Young | Council Member | January 2020 |
| Dustin Rief | City Administrator/Clerk | Indefinite |
| Susan Hammen | Treasurer | Indefinite |
| Rich Bordwell | Attorney | January 2017 |



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the financial statements referred to above do not include the financial transactions of the Iowa Specialty Hospital - Clarion, a component unit of the City of Clarion, pertaining to the Enterprise Funds, which should be included in order to conform with U.S. generally accepted accounting principles. The financial transactions that should have been recorded are on a different basis of accounting.

Qualified Opinions

In my opinion, except for the effects on the financial statements due to the exclusion of the financial transactions of the Iowa Specialty Hospital - Clarion from the reporting entity, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarion's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 9 and 31 through 36, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated January 3, 2017 on my consideration of the City of Clarion's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The City of Clarion's internal control over financial reporting and compliance.



Charles City, Iowa
January 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Clarion provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 5.2%, or approximately \$171,000 from fiscal year 2015 to fiscal year 2016. Operating grants, contributions and restricted interest and note proceeds increased approximately \$115,000 and \$81,000, respectively, while capital grants, contributions and restricted interest and property tax decreased approximately \$186,000 and \$150,000, respectively.

Disbursements of the City's governmental activities decreased 24.3%, or approximately \$1,103,000, in fiscal year 2016 from fiscal year 2015. Public safety and general government disbursements increased approximately \$116,000 and \$41,000, respectively, while community and economic development and capital projects disbursements decreased approximately \$896,000 and \$236,000, respectively.

The City's total cash basis net position decreased 6.3%, or approximately \$208,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$335,000 and the cash basis net position of the business type activities increased by approximately \$127,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds, including water, sewer and landfill accounts.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$2,071,000 to approximately \$1,736,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

(Expressed in Thousands)

| | Year ended June 30, | |
|---|---------------------|-----------------|
| | 2016 | 2015 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 385 | \$ 411 |
| Operating grants, contributions and restricted interest | 451 | 336 |
| Capital grants, contributions and restricted interest | 17 | 203 |
| General receipts: | | |
| Property tax | 1,724 | 1,874 |
| Local option sales tax | 285 | 254 |
| Unrestricted interest on investments | 8 | 21 |
| Note proceeds | 81 | - |
| Other general receipts | 166 | 189 |
| Total receipts | <u>\$ 3,117</u> | <u>\$ 3,288</u> |
| Disbursements: | | |
| Public safety | \$ 929 | \$ 813 |
| Public works | 465 | 445 |
| Health and social services | 6 | 6 |
| Culture and recreation | 295 | 291 |
| Community and economic development | 773 | 1,669 |
| General government | 269 | 228 |
| Debt service | 706 | 858 |
| Capital projects | - | 236 |
| Total disbursements | <u>\$ 3,443</u> | <u>\$ 4,546</u> |
| Change in cash basis net position before transfers | \$ (326) | \$ (1,258) |
| Transfers, net | <u>(9)</u> | <u>-</u> |
| Change in cash basis net position | \$ (335) | \$ (1,258) |
| Cash basis net position beginning of year | <u>2,071</u> | <u>3,329</u> |
| Cash basis net position end of year | <u>\$ 1,736</u> | <u>\$ 2,071</u> |

The City's total receipts for governmental activities decreased 5.2%, or approximately \$171,000. The total cost of all programs and services decreased approximately \$1,103,000, or 24.3%. The decrease in receipts was primarily the result of prior year capital grants for the airport project. The decrease in disbursements was due primarily to prior year tax increment financing expenses for the White Fox Landing Project.

The cost of all governmental activities this year was approximately \$3,443,000 compared to approximately \$4,546,000 last year. However, as shown in the Statement of Activities and Net Position on pages 10-13, the amount taxpayers ultimately financed for these activities was approximately \$2,590,000 because some of the cost was paid by those directly benefited from the programs (approximately \$385,000) or by other governments and organizations which subsidized certain programs with grants, contributions, and restricted interest (approximately \$468,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$950,000 to approximately \$853,000.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 763 | \$ 733 |
| Sewer | 846 | 640 |
| Storm sewer | 64 | 64 |
| Other | 95 | 86 |
| Capital grants, contributions and restricted interest | 254 | - |
| General receipts: | | |
| Bond and note proceeds, net | 4,977 | 66 |
| Other general receipts | 21 | 16 |
| Total receipts | <u>\$ 7,020</u> | <u>\$ 1,605</u> |
| Disbursements: | | |
| Water | \$ 547 | \$ 518 |
| Sewer | 437 | 407 |
| Waste water project | 5,303 | 246 |
| Storm sewer | 15 | - |
| Other | 600 | 386 |
| Total disbursements | <u>\$ 6,902</u> | <u>\$ 1,557</u> |
| Change in cash basis net position before transfers | \$ 118 | \$ 48 |
| Transfers, net | <u>9</u> | <u>-</u> |
| Change in cash basis net position | \$ 127 | \$ 48 |
| Cash basis net position beginning of year | <u>1,261</u> | <u>1,213</u> |
| Cash basis net position end of year | <u>\$ 1,388</u> | <u>\$ 1,261</u> |

Total business type activities receipts for the fiscal year were approximately \$7,020,000 compared to approximately \$1,605,000 last year. This increase was due primarily to approximately \$5,000,000 in revenue bond proceeds for the waste water project. The cash balance increased by approximately \$127,000 from the prior year. Total disbursements for the fiscal year increased by 343.3% to a total of approximately \$6,902,000 mainly due to waste water capital projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$1,735,903, a decrease of \$334,931 below last year's total of \$2,070,834. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$92,461 from the prior year to \$314,136. Most of this increase was due to net transfers in of approximately \$92,000.

The Special Revenue, Road Use Tax Fund cash balance increased \$62,585 to \$202,680, due to note proceeds received in the amount of \$81,000 during the year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased \$104,381 to \$527,705 during the fiscal year. This increase was attributable to less projects during the year.

The Special Revenue, Tax Increment Financing Fund cash balance was \$279,999, a decrease of \$508,165 from the previous year. The decrease was the result of projects completed during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$174,966 to \$552,481, due primarily to a decrease in transfers out during the year.

The Enterprise, Sewer Fund cash balance decreased \$239,888 to \$322,825, due primarily to transfers out during the year.

The Enterprise, Waste Water Project Fund cash balance increased \$312,404 to \$119,440, due to revenue bond proceeds and a transfer in during the year.

The Enterprise, Storm Sewer Fund cash balance increased \$48,559 from the prior year to \$276,793. This increase was the result of capital projects just beginning.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2016 and resulted in an increase in operating disbursements in numerous City departments. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the public safety, general government and debt service functions for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$10,253,000 of bonds and notes and other long-term debt outstanding, compared to approximately \$5,708,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

| | June 30, | |
|------------------------------------|-----------------|-----------------|
| | 2016 | 2015 |
| General obligation bonds and notes | \$ 4,386 | \$ 4,595 |
| Revenue bonds and notes | 5,867 | 969 |
| REDLA loan | - | 25 |
| Anticipatory notes | - | 119 |
| Total | <u>\$10,253</u> | <u>\$ 5,708</u> |

Debt increased as a result of issuing revenue bonds for the waste water project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,078,146 is below its constitutional debt limit of \$6,141,287.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Clarion's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

Clarion continues to partner as team members with the Clarion Economic Development Corporation, Iowa Specialty Hospital - Clarion and other local businesses for the betterment of providing economic development opportunities.

At this time, the City and I2i Clarion, Inc. are completing a new housing development on the east edge of town called White Fox Landing. The development includes three phases and there are 23 available lots for building single family homes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dustin Rief, City Administrator, 121 1st SW, Clarion, Iowa 50525.

Basic Financial Statements

CITY OF CLARION, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | | Program Receipts | | |
|---------------------------------------|---------------------|---------------------------|--|--|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| FUNCTIONS/PROGRAMS : | Disbursements | | | |
| Governmental activities: | | | | |
| Public safety | \$ 929,491 | \$ 128,113 | \$ - | \$ - |
| Public works | 465,237 | 61,465 | 355,232 | - |
| Health and social services | 5,500 | - | - | - |
| Culture and recreation | 295,206 | 94,675 | 28,527 | - |
| Community and economic development | 772,825 | 1,700 | 66,989 | - |
| General government | 268,927 | 95,364 | - | - |
| Debt service | 706,137 | 3,791 | - | - |
| Capital projects | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,221</u> |
| Total governmental activities | <u>\$ 3,443,323</u> | <u>\$ 385,108</u> | <u>\$ 450,748</u> | <u>\$ 17,221</u> |
| Business type activities: | | | | |
| Water | \$ 547,030 | \$ 762,589 | \$ - | \$ - |
| Sewer | 437,097 | 846,017 | - | - |
| Waste water project | 5,303,145 | - | - | - |
| Storm sewer | 15,426 | 63,985 | - | - |
| Other | <u>599,593</u> | <u>95,294</u> | <u>-</u> | <u>253,745</u> |
| Total business type activities | <u>\$ 6,902,291</u> | <u>\$1,767,885</u> | <u>\$ -</u> | <u>\$ 253,745</u> |
| Total | <u>\$10,345,614</u> | <u>\$2,152,993</u> | <u>\$ 450,748</u> | <u>\$ 270,966</u> |

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

| <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|---|--|---------------------|
| \$ (801,378) | \$ - | \$ (801,378) |
| (48,540) | - | (48,540) |
| (5,500) | - | (5,500) |
| (172,004) | - | (172,004) |
| (704,136) | - | (704,136) |
| (173,563) | - | (173,563) |
| (702,346) | - | (702,346) |
| <u>17,221</u> | <u>-</u> | <u>17,221</u> |
| \$ (2,590,246) | \$ - | \$ (2,590,246) |
| \$ - | \$ 215,559 | \$ 215,559 |
| - | 408,920 | 408,920 |
| - | (5,303,145) | (5,303,145) |
| - | 48,559 | 48,559 |
| <u>-</u> | <u>(250,554)</u> | <u>(250,554)</u> |
| \$ - | \$ (4,880,661) | \$ (4,880,661) |
| \$ (2,590,246) | \$ (4,880,661) | \$ (7,470,907) |

CITY OF CLARION, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

General Receipts:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Bond and note proceeds, net
- Miscellaneous
- Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:

Nonexpendable:

- Cemetery perpetual care

Expendable:

- Streets
- Urban renewal purposes
- Debt service
- Other purposes

Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

| Governmental Activities | Business Type Activities | Total |
|------------------------------------|-------------------------------------|----------------------------|
| \$ 983,974 | \$ - | \$ 983,974 |
| 205,066 | - | 205,066 |
| 535,348 | - | 535,348 |
| 285,104 | - | 285,104 |
| 7,525 | 68 | 7,593 |
| 81,000 | 4,976,820 | 5,057,820 |
| 166,710 | 20,809 | 187,519 |
| (9,412) | 9,412 | - |
| <u>\$ 2,255,315</u> | <u>\$5,007,109</u> | <u>\$ 7,262,424</u> |
| \$ (334,931) | \$ 126,448 | \$ (208,483) |
| <u>2,070,834</u> | <u>1,261,470</u> | <u>3,332,304</u> |
| <u>\$ 1,735,903</u> | <u>\$1,387,918</u> | <u>\$ 3,123,821</u> |
| | | |
| \$ 70,856 | \$ - | \$ 70,856 |
| 202,680 | - | 202,680 |
| 279,999 | - | 279,999 |
| 120,704 | - | 120,704 |
| 746,083 | - | 746,083 |
| 315,581 | 1,387,918 | 1,703,499 |
| <u>\$ 1,735,903</u> | <u>\$1,387,918</u> | <u>\$ 3,123,821</u> |

CITY OF CLARION, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | | <u>Special Revenue</u> | |
|--|--------------------------|--------------------------|-------------------------------|
| | <u>General</u> | <u>Road Use Tax</u> | <u>Local Option Sales Tax</u> |
| RECEIPTS: | | | |
| Property tax | \$ 659,636 | \$ - | \$ - |
| Tax increment financing | - | - | - |
| Other city tax | - | - | 285,104 |
| Licenses and permits | 6,195 | - | - |
| Use of money and property | 80,513 | - | - |
| Intergovernmental | 31,559 | 352,201 | - |
| Charges for service | 316,809 | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 71,868 | 1,972 | - |
| Total receipts | <u>\$1,166,580</u> | <u>\$ 354,173</u> | <u>\$ 285,104</u> |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 669,009 | \$ - | \$ 65,083 |
| Public works | 54,994 | 357,088 | 38,475 |
| Health and social services | - | 5,500 | - |
| Culture and recreation | 237,209 | - | - |
| Community and economic development | - | - | - |
| General government | 205,089 | - | 34,395 |
| Debt service | - | - | - |
| Total disbursements | <u>\$1,166,301</u> | <u>\$ 362,588</u> | <u>\$ 137,953</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ 279</u> | <u>\$ (8,415)</u> | <u>\$ 147,151</u> |
| Other financing sources (uses): | | | |
| Note proceeds | \$ - | \$ 81,000 | \$ - |
| Transfers in | 92,182 | - | - |
| Transfers out | - | (10,000) | (42,770) |
| Total other financing sources (uses) | <u>\$ 92,182</u> | <u>\$ 71,000</u> | <u>\$ (42,770)</u> |
| Change in cash balances | \$ 92,461 | \$ 62,585 | \$ 104,381 |
| Cash balances beginning of year | <u>221,675</u> | <u>140,095</u> | <u>423,324</u> |
| Cash balances end of year | <u>\$ 314,136</u> | <u>\$ 202,680</u> | <u>\$ 527,705</u> |
| Cash Basis Fund Balances | | | |
| Nonspendable - Cemetery perpetual care | \$ - | \$ - | \$ - |
| Restricted for: | | | |
| Streets | - | 202,680 | - |
| Urban renewal purposes | - | - | - |
| Debt service | - | - | - |
| Other purposes | - | - | 527,705 |
| Assigned for: | | | |
| Community Center | - | - | - |
| Storm Sewer Projects | - | - | - |
| Police/Ambulance Building | 30,015 | - | - |
| Fire Station | - | - | - |
| Library | 86,513 | - | - |
| Aquatic | 17,846 | - | - |
| Other | - | - | - |
| Unassigned | <u>179,762</u> | <u>-</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$ 314,136</u> | <u>\$ 202,680</u> | <u>\$ 527,705</u> |

See Notes to Financial Statements.

| <u>Tax</u> <u>Increment</u> <u>Financing</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|--------------------------|----------------------------|
| \$ - | \$ 484,175 | \$ 1,143,811 |
| 535,348 | - | 535,348 |
| - | 45,229 | 330,333 |
| - | - | 6,195 |
| - | - | 80,513 |
| - | 84,210 | 467,970 |
| - | - | 316,809 |
| 1,700 | 3,791 | 5,491 |
| 33,108 | 43,386 | 150,334 |
| <u>\$ 570,156</u> | <u>\$ 660,791</u> | <u>\$ 3,036,804</u> |
| | | |
| \$ - | \$ 195,399 | \$ 929,491 |
| - | 14,680 | 465,237 |
| - | - | 5,500 |
| - | 57,997 | 295,206 |
| 628,976 | 143,849 | 772,825 |
| - | 29,443 | 268,927 |
| 399,345 | 306,792 | 706,137 |
| <u>\$1,028,321</u> | <u>\$ 748,160</u> | <u>\$ 3,443,323</u> |
| | | |
| <u>\$ (458,165)</u> | <u>\$ (87,369)</u> | <u>\$ (406,519)</u> |
| | | |
| \$ - | \$ - | \$ 81,000 |
| - | 91,270 | 183,452 |
| (50,000) | (90,094) | (192,864) |
| <u>\$ (50,000)</u> | <u>\$ 1,176</u> | <u>\$ 71,588</u> |
| | | |
| \$ (508,165) | \$ (86,193) | \$ (334,931) |
| | | |
| <u>788,164</u> | <u>497,576</u> | <u>2,070,834</u> |
| <u>\$ 279,999</u> | <u>\$ 411,383</u> | <u>\$ 1,735,903</u> |
| | | |
| \$ - | \$ 70,856 | \$ 70,856 |
| - | - | 202,680 |
| 279,999 | - | 279,999 |
| - | 120,704 | 120,704 |
| - | 218,378 | 746,083 |
| | | |
| - | 75,070 | 75,070 |
| - | 30,463 | 30,463 |
| - | - | 30,015 |
| - | 75,000 | 75,000 |
| - | - | 86,513 |
| - | - | 17,846 |
| - | 26 | 26 |
| - | (179,114) | 648 |
| <u>\$ 279,999</u> | <u>\$ 411,383</u> | <u>\$ 1,735,903</u> |

CITY OF CLARION, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | Enterprise | | | |
|---|--------------------------|--------------------------|---------------------------|--------------------------|
| | Water | Sewer | Waste Water Project | Storm Sewer |
| Operating receipts: | | | | |
| Charges for service | \$ 762,589 | \$ 846,017 | \$ - | \$ 63,985 |
| Miscellaneous | 8,145 | - | - | - |
| Total operating receipts | <u>\$ 770,734</u> | <u>\$ 846,017</u> | <u>\$ -</u> | <u>\$ 63,985</u> |
| Operating disbursements: | | | | |
| Business type activities | <u>547,030</u> | <u>437,097</u> | <u>-</u> | <u>-</u> |
| Excess of operating receipts over operating disbursement | <u>\$ 223,704</u> | <u>\$ 408,920</u> | <u>\$ -</u> | <u>\$ 63,985</u> |
| Non-operating receipts (disbursements): | | | | |
| Intergovernmental | \$ - | \$ - | \$ - | \$ - |
| Interest on investments | 68 | - | - | - |
| Miscellaneous | 5,799 | 6,664 | - | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | (5,303,145) | (15,426) |
| Net non-operating receipts (disbursements) | <u>\$ 5,867</u> | <u>\$ 6,664</u> | <u>\$ (5,303,145)</u> | <u>\$ (15,426)</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ 229,571</u> | <u>\$ 415,584</u> | <u>\$ (5,303,145)</u> | <u>\$ 48,559</u> |
| Other financing sources (uses): | | | | |
| Anticipatory note proceeds | \$ - | \$ - | \$ 37,580 | \$ - |
| Revenue bond proceeds | - | - | 5,117,455 | - |
| Anticipatory note payments | - | - | (156,619) | - |
| Bond premium/discount | - | - | (21,596) | - |
| Transfers in | - | - | 638,729 | - |
| Transfers out | (54,605) | (655,472) | - | - |
| Total other financing sources (uses) | <u>\$ (54,605)</u> | <u>\$ (655,472)</u> | <u>\$ 5,615,549</u> | <u>\$ -</u> |
| Change in cash balances | \$ 174,966 | \$ (239,888) | \$ 312,404 | \$ 48,559 |
| Cash balances beginning of year | <u>377,515</u> | <u>562,713</u> | <u>(192,964)</u> | <u>228,234</u> |
| Cash balances end of year | <u>\$ 552,481</u> | <u>\$ 322,825</u> | <u>\$ 119,440</u> | <u>\$ 276,793</u> |
| Cash Basis Fund Balances | | | | |
| Committed for waste water | \$ - | \$ - | \$ 119,440 | \$ - |
| Assigned for sewer improvement | - | - | - | - |
| Unrestricted | <u>552,481</u> | <u>322,825</u> | <u>-</u> | <u>276,793</u> |
| Total cash basis fund balances | <u>\$ 552,481</u> | <u>\$ 322,825</u> | <u>\$ 119,440</u> | <u>\$ 276,793</u> |

| <u>Nonmajor</u> | <u>Total</u> |
|------------------------------|--------------------------------|
| \$ 95,294 | \$ 1,767,885 |
| - | 8,145 |
| <u>\$ 95,294</u> | <u>\$ 1,776,030</u> |
| 87,908 | 1,072,035 |
| <u>\$ 7,386</u> | <u>\$ 703,995</u> |
| \$ 253,745 | \$ 253,745 |
| - | 68 |
| 201 | 12,664 |
| (102,395) | (102,395) |
| <u>(409,290)</u> | <u>(5,727,861)</u> |
| \$ (257,739) | \$ (5,563,779) |
| \$ (250,353) | \$ (4,859,784) |
| \$ - | \$ 37,580 |
| - | 5,117,455 |
| - | (156,619) |
| - | (21,596) |
| 337,760 | 976,489 |
| <u>(257,000)</u> | <u>(967,077)</u> |
| \$ 80,760 | \$ 4,986,232 |
| \$ (169,593) | \$ 126,448 |
| 285,972 | 1,261,470 |
| <u>\$ 116,379</u> | <u>\$ 1,387,918</u> |
| \$ - | \$ 119,440 |
| 54,580 | 54,580 |
| <u>61,799</u> | <u>1,213,898</u> |
| <u>\$ 116,379</u> | <u>\$ 1,387,918</u> |

See Notes to Financial Statements.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies

The City of Clarion is a political subdivision of the State of Iowa located in Wright County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and landfill services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Clarion has included all funds, organizations, agencies, boards, commissions and authorities, except for the Iowa Specialty Hospital - Clarion. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Clarion (the Primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from their administrative office.

Component Unit - The Iowa Specialty Hospital - Clarion is not presented in these financial statements. It is legally separate from the City, but is financially accountable to the City. The Hospital is governed by a five-member board appointed by the City Council and the Hospital's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Wright County Assessor's Conference Board and the Mid-Iowa Development Association Council of Governments.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) **Summary of Significant Accounting Policies** - continued

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax revenues.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Waste Water Project Fund accounts for construction of a new lift station.

The Enterprise, Storm Sewer Fund accounts for the repairs and maintenance of the City's storm sewer.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation, revenue and special assessment bonds and notes are as follows:

| Year Ending June 30, | General Obligation Bonds and Notes | | Revenue Bonds | | Total | |
|----------------------------|---------------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 418,912 | \$ 164,443 | \$ 254,000 | \$ 149,797 | \$ 672,912 | \$ 314,240 |
| 2018 | 410,000 | 151,974 | 261,000 | 182,574 | 671,000 | 334,548 |
| 2019 | 288,000 | 138,598 | 268,000 | 175,715 | 556,000 | 314,313 |
| 2020 | 295,000 | 129,952 | 279,000 | 167,671 | 574,000 | 297,623 |
| 2021 | 281,000 | 120,060 | 221,000 | 161,340 | 502,000 | 281,400 |
| 2022-2026 | 1,353,000 | 446,130 | 960,000 | 720,645 | 2,313,000 | 1,166,775 |
| 2027-2031 | 1,120,000 | 177,500 | 929,000 | 597,628 | 2,049,000 | 775,128 |
| 2032-2036 | 220,000 | 8,800 | 1,079,000 | 461,916 | 1,299,000 | 470,716 |
| 2037-2041 | - | - | 1,250,000 | 304,396 | 1,250,000 | 304,396 |
| 2042-2043 | - | - | 366,455 | 42,418 | 366,455 | 42,418 |
| Total | <u>\$4,385,912</u> | <u>\$1,337,457</u> | <u>\$ 5,867,455</u> | <u>\$2,964,100</u> | <u>\$10,253,367</u> | <u>\$4,301,557</u> |

The resolutions providing for the issuance of the general obligation bond and notes include the following provisions:

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(3) Bonds and Notes Payable - continued

- (a) At the option of the City, notes due on the Capital Loan Note issue of July 1, 2009, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2018, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- (b) At the option of the City, notes due on the Capital Loan Note issue of June 1, 2010, are subject to redemption and prepayment in any order of maturity beginning June 1, 2016, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- (c) At the option of the City, notes due on the Capital Loan Note issue of August 28, 2008, are subject to redemption and prepayment in any order of maturity beginning June 1, 2014, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- (d) At the option of the City, bonds due on the Storm Water Bonds issue of April 1, 2013, are subject to redemption and prepayment in inverse numerical order beginning April 1, 2019, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- (e) At the option of the City, bonds due on the G.O. Annual Appropriation Bond issue of June 26, 2014, are subject to redemption and prepayment in any order of maturity beginning June 1, 2022, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- (f) At the option of the City, bonds due on the G.O. Annual Appropriation Bonds issue of June 26, 2014, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2022, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

Urban Renewal Revenue Annual Appropriation Refunding Bonds

The City issued \$1,213,000 of urban renewal revenue annual appropriation refunding bonds in March 2013 for the purpose of refunding the aquatic center and library urban renewal annual appropriation capital loan notes. The notes are payable solely from the net revenues of urban renewal project credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$816,449, payable through June 2023. For the current year, principal and interest paid were \$118,000 and \$18,917, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the net revenues of the urban renewal projects.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(3) **Bond and Notes Payable** - continued

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$6,200,000 in sewer revenue bonds issued in September 2015. Proceeds from the bonds provided financing for constructing improvements and extensions to the municipal sewer utility. The bonds are payable solely from water customer net receipts and are payable through 2043. Annual principal and interest payments on the bonds are expected to require less than 5 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$8,821,555. For the current year, principal and interest paid and total customer net receipts were \$76,634 and \$408,920, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and bond/note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers shall be made to sewer revenue bond reserve accounts until the required balances are accumulated. The water revenue bond reserve account is restricted for the purpose of paying for unusual or extraordinary maintenance, repairs, renewals and replacements to the system and when necessary for the purpose of making payments of principal and interest.

On January 31, 2014, the City was awarded a State Revolving Loan in the amount of \$250,000 to upgrade the wastewater treatment plant. As of June 30, 2016, the loan was paid off.

(4) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) **Pension Plan** - continued

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 Years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$97,198.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$233,145 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.126158%, which was a decrease of 0.026925% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$32,794, \$17,894 and \$(223,198) respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

| | |
|--|--|
| Rate of Inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | <u>1</u> | (0.71) |
| Total | <u>100%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 859,697 | \$ 343,063 | \$ (92,684) |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 20 active members and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with AdminiTrust, Inc. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$372 for single coverage and \$1,889 for family coverage. For the year ended June 30, 2016, the City contributed \$232,569 and plan members eligible for benefits contributed \$21,580 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$ 73,888 |
| Sick leave | <u>2,150</u> |
| Total | <u>\$ 76,038</u> |

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Leases

The City has entered into a lease purchase agreement with the Wright Medical Foundation. The Foundation is an organization that is exempt from federal income tax as an organization described in Section 501 (c) (3) of the Internal Revenue Code, and is audited by other auditors.

The Foundation originally issued \$3,050,000 in notes to contract the Meadows Facility which is a housing/hospital project. The notes do not constitute general obligations of the City or change the general credit or taxing powers of the City.

The City is leasing the facility from the Foundation. The City is not expecting to incur costs from this lease as the Foundation will remit funds to the City in amounts sufficient to cover the lease payments. However, during the year, the principal and interest payments of \$215,819 and \$23,933, respectively, were paid directly by the Foundation. The City's obligations under this lease purchase agreement are not general obligations of the City.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(7) Leases - continued

The future minimum lease payments under the capital lease are as follow:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-----------------|-------------------|
| 2017 | \$ 230,273 | \$ 9,479 | \$ 239,752 |
| 2018 | 19,871 | 108 | 19,979 |
| Total | <u>\$ 250,144</u> | <u>\$ 9,587</u> | <u>\$ 259,731</u> |

(8) Deficit Balances

The Capital Projects, CDBG Housing Project Fund had a deficit balance of \$39,593 at June 30, 2016. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

The Capital Projects, Airport Fund had a deficit balance of \$139,521 at June 30, 2016. This deficit will be eliminated upon future receipts.

At June 30, 2016, the Enterprise, Water Debt Service Fund had a deficit balance of \$744. The deficit balance was a result of a deficit beginning balance. The deficit will be eliminated upon additional transfers.

The Enterprise, CDBG Sanitary Sewer Fund had a deficit balance of \$930 at June 30, 2016. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

(9) Wright County Area Landfill Authority

The City, in conjunction with city, town and unincorporated portion of Wright County, Iowa, has created the Wright County Area Landfill Authority. The Authority was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Authority will be prorated among the members. The governing body of the Authority consists of one representative from each member. Each member has one vote.

The Authority is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Clarion has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2016, the City of Clarion paid the Authority \$71,250 for its share of the costs. Complete financial statements for the Authority can be obtained from the Wright County Area Landfill Authority.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(10) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|-------------------------|-------------------------|--------------------|
| General | Special Revenue: | |
| | Emergency Levy | \$ 75,682 |
| | Local Option Sales Tax | 11,500 |
| | | <u>\$ 87,182</u> |
| | Capital projects: | |
| | Fire Station | 5,000 |
| | | <u>\$ 92,182</u> |
| Special Revenue: | Special Revenue: | |
| Tax Increment Financing | Tax Increment Financing | |
| Debt | | <u>\$ 50,000</u> |
| Debt Service | Special Revenue: | |
| | Road Use Tax | \$ 10,000 |
| | Local Option Sales Tax | 31,270 |
| | | <u>\$ 41,270</u> |
| Enterprise: | Enterprise: | |
| Water Debt Service | Water | \$ 54,605 |
| | Water Bond Reserve | 50,000 |
| | | <u>\$ 104,605</u> |
| CDBG Sanitary Sewer | Capital Projects: | |
| | CDBG Housing Project | \$ 9,412 |
| | Enterprise: | |
| | Sewer | 169,743 |
| | | <u>\$ 179,155</u> |
| Sewer Improvement | Enterprise: | |
| | Sewer | <u>\$ 54,000</u> |
| Waste Water Project | Enterprise: | |
| | Sewer | \$ 431,729 |
| | Sewer improvement | 207,000 |
| | | <u>\$ 638,729</u> |
| Total | | <u>\$1,159,941</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) **Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(12) Commitments

At June 30, 2016, the following construction commitments had been made:

| <u>Project</u> | <u>Total Contract</u> | <u>Costs Incurred to Date</u> |
|----------------------|---------------------------|---------------------------------------|
| CDBG sanitary sewer | \$ 395,440 | \$ 375,668 |
| Wastewater treatment | 6,370,000 | 5,122,168 |
| Airport improvement | 115,503 | - |
| Airport equipment | 170,000 | - |
| Total | <u>\$7,050,943</u> | <u>\$5,497,836</u> |

(13) Related Party Transactions

The City had business transactions between the City and City Officials totaling \$17,574 during the year ended June 30, 2016.

(14) Industrial Development Revenue Bonds

The City has issued a total of \$25,815,746 of industrial revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$15,875,000 is outstanding at June 30, 2016. The bonds and related interest are payable solely from the revenues generated by the entities, and the bond principal and interest do not constitute liabilities of the City.

(15) Litigation

The City is involved in a wrongful termination claim. The probability of loss, if any, is undeterminable.

(16) Subsequent Events

On July 18, 2016, the City approved the contract with Voltmer, Inc, for construction of traffic signals in the amount of \$95,165.

The City approved the purchase of a skidloader and snowblower in the amount of \$45,970 on August 15, 2016. Also, the City approved the purchase of a dump truck and snowplow in the amount of \$116,215.

On September 6, 2016, the City authorized the rehabilitation of the Aquatic Park waterslides in the amount of \$38,000. The City also approved the purchase of software in the amount of \$27,110.

Other Information

CITY OF CLARION, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds Not Required To Be Budgeted |
|---|---------------------------------|--------------------------------|--|
| RECEIPTS: | | | |
| Property tax | \$ 1,143,811 | \$ - | \$ - |
| Tax increment financing | 535,348 | - | - |
| Other city tax | 330,333 | - | - |
| Licenses and permits | 6,195 | - | - |
| Use of money and property | 80,513 | 68 | - |
| Intergovernmental | 467,970 | 253,745 | - |
| Charges for service | 316,809 | 1,767,885 | - |
| Special assessments | 5,491 | - | - |
| Miscellaneous | 150,334 | 20,809 | - |
| Total receipts | <u>\$ 3,036,804</u> | <u>\$ 2,042,507</u> | <u>\$ -</u> |
| DISBURSEMENTS: | | | |
| Public safety | \$ 929,491 | \$ - | \$ - |
| Public works | 465,237 | - | - |
| Health and social services | 5,500 | - | - |
| Culture and recreation | 295,206 | - | - |
| Community and economic development | 772,825 | - | - |
| General government | 268,927 | - | - |
| Debt service | 706,137 | - | - |
| Capital projects | - | - | - |
| Business type activities | - | 6,902,291 | - |
| Total disbursements | <u>\$ 3,443,323</u> | <u>\$ 6,902,291</u> | <u>\$ -</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ (406,519) | \$ (4,859,784) | \$ - |
| Other financing sources, net | <u>71,588</u> | <u>4,986,232</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | \$ (334,931) | \$ 126,448 | \$ - |
| Balances beginning of year | <u>2,070,834</u> | <u>1,261,470</u> | <u>-</u> |
| Balances end of year | <u>\$ 1,735,903</u> | <u>\$ 1,387,918</u> | <u>\$ -</u> |

See Accompanying Independent Auditor's Report.

| Total | Budgeted Amounts | | Final to Total Variance |
|----------------------------|----------------------------|----------------------------|--|
| | Original | Final | |
| \$ 1,143,811 | \$ 1,056,908 | \$ 1,056,908 | \$ 86,903 |
| 535,348 | 526,507 | 526,507 | 8,841 |
| 330,333 | 318,297 | 318,297 | 12,036 |
| 6,195 | 19,375 | 19,375 | (13,180) |
| 80,581 | 91,918 | 78,298 | 2,283 |
| 721,715 | 372,298 | 372,298 | 349,417 |
| 2,084,694 | 91,858,724 | 91,918,724 | (89,834,030) |
| 5,491 | - | - | 5,491 |
| 171,143 | 297,585 | 155,280 | 15,863 |
| <u>\$ 5,079,311</u> | <u>\$94,541,612</u> | <u>\$ 94,445,687</u> | <u>\$ (89,366,376)</u> |
| | | | |
| \$ 929,491 | \$ 835,432 | \$ 919,300 | \$ (10,191) |
| 465,237 | 478,476 | 478,476 | 13,239 |
| 5,500 | 5,500 | 5,500 | - |
| 295,206 | 312,419 | 312,419 | 17,213 |
| 772,825 | 543,323 | 1,127,323 | 354,498 |
| 268,927 | 265,582 | 265,582 | (3,345) |
| 706,137 | 233,624 | 233,624 | (472,513) |
| - | - | - | - |
| 6,902,291 | 91,264,593 | 96,764,593 | 89,862,302 |
| <u>\$10,345,614</u> | <u>\$93,938,949</u> | <u>\$100,106,817</u> | <u>\$ 89,761,203</u> |
| | | | |
| \$ (5,266,303) | \$ 602,663 | \$ (5,661,130) | \$ 394,827 |
| 5,057,820 | - | 4,881,000 | 176,820 |
| | | | |
| \$ (208,483) | \$ 602,663 | \$ (780,130) | \$ 571,647 |
| 3,332,304 | 4,991,186 | 4,991,186 | (1,658,882) |
| <u>\$ 3,123,821</u> | <u>\$ 5,593,849</u> | <u>\$ 4,211,056</u> | <u>\$ (1,087,235)</u> |

CITY OF CLARION, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$6,167,868. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, general government and debt service functions.

CITY OF CLARION, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS * (IN THOUSANDS)

OTHER INFORMATION

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| City's proportion of the net pension liability | 0.135869% | 0.126158% |
| City's proportionate share of the net pension liability | \$ 343 | \$ 233 |
| City's covered-employee payroll | \$ 1,040 | \$ 972 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 32.98% | 23.97% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS (IN THOUSANDS)

OTHER INFORMATION

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Statutorily required contribution | \$ 97 | \$ 92 |
| Contributions in relation to the statutorily required contribution | <u>(97)</u> | <u>(92)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 1,040 | \$ 972 |
| Contributions as a percentage of covered-employee payroll | 9.33% | 9.47% |

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

CITY OF CLARION, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | Special Revenue | | | | |
|---|-------------------------|--------------------|------------------------|-------------------------|--------------------------|
| | Employee | Emergency | Hotel- | Tax | Debt |
| | Benefits | Levy | Motel | Increment | Service |
| | | | | Financing | |
| | | | | Debt | |
| RECEIPTS: | | | | | |
| Property tax | \$260,705 | \$ 18,404 | \$ - | \$ - | \$ 205,066 |
| Other city tax | - | - | 45,229 | - | - |
| Intergovernmental | - | - | - | - | - |
| Special assessments | - | - | - | - | 3,791 |
| Miscellaneous | 42,486 | - | - | - | - |
| Total receipts | <u>\$303,191</u> | <u>\$ 18,404</u> | <u>\$45,229</u> | <u>\$ -</u> | <u>\$ 208,857</u> |
| DISBURSEMENTS: | | | | | |
| Operating: | | | | | |
| Public safety | \$195,399 | \$ - | \$ - | \$ - | \$ - |
| Public works | 14,680 | - | - | - | - |
| Culture and recreation | 57,997 | - | - | - | - |
| Community and economic development | - | - | 15,001 | 31,739 | - |
| General government | 29,443 | - | - | - | - |
| Debt service | - | - | - | - | 306,792 |
| Total disbursements | <u>\$297,519</u> | <u>\$ -</u> | <u>\$15,001</u> | <u>\$ 31,739</u> | <u>\$ 306,792</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ 5,672</u> | <u>\$ 18,404</u> | <u>\$30,228</u> | <u>\$ (31,739)</u> | <u>\$ (97,935)</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ 50,000 | \$ 41,270 |
| Transfers out | - | (75,682) | - | - | - |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ (75,682)</u> | <u>\$ -</u> | <u>\$ 50,000</u> | <u>\$ 41,270</u> |
| Change in cash balances | \$ 5,672 | \$ (57,278) | \$30,228 | \$ 18,261 | \$ (56,665) |
| Cash balances beginning of year | <u>134,181</u> | <u>57,278</u> | <u>25,633</u> | <u>4,403</u> | <u>177,369</u> |
| Cash balances end of year | <u>\$139,853</u> | <u>\$ -</u> | <u>\$55,861</u> | <u>\$ 22,664</u> | <u>\$ 120,704</u> |
| Cash Basis Fund Balances | | | | | |
| Nonspendable - Cemetery perpetual care | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restricted for: | | | | | |
| Debt Service | - | - | - | - | 120,704 |
| Other purposes | 139,853 | - | 55,861 | 22,664 | - |
| Assigned for capital projects | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| Total cash basis fund balances | <u>\$139,853</u> | <u>\$ -</u> | <u>\$55,861</u> | <u>\$ 22,664</u> | <u>\$ 120,704</u> |

See Accompanying Independent Auditor's Report.

| Capital Projects | | | | | | Permanent | |
|----------------------------|---------------------------|-------------------------|----------------------------|-------------------------|-------------------------|-------------------------------|--------------------------|
| CDBG Housing Project | 2014 Traffic Signal | Community Center | Airport | Storm Sewer | Fire Station | Cemetery Perpetual Care | Total |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 484,175 |
| - | - | - | - | - | - | - | 45,229 |
| 66,989 | - | - | 17,221 | - | - | - | 84,210 |
| - | - | - | - | - | - | - | 3,791 |
| - | - | - | - | - | - | 900 | 43,386 |
| <u>\$ 66,989</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,221</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 900</u> | <u>\$ 660,791</u> |
| | | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 195,399 |
| - | - | - | - | - | - | - | 14,680 |
| - | - | - | - | - | - | - | 57,997 |
| 97,109 | - | - | - | - | - | - | 143,849 |
| - | - | - | - | - | - | - | 29,443 |
| - | - | - | - | - | - | - | 306,792 |
| <u>\$ 97,109</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 748,160</u> |
| | | | | | | | |
| \$ (30,120) | \$ - | \$ - | \$ 17,221 | \$ - | \$ - | \$ 900 | \$ (87,369) |
| | | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 91,270 |
| (9,412) | - | - | - | - | (5,000) | - | (90,094) |
| <u>\$ (9,412)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (5,000)</u> | <u>\$ -</u> | <u>\$ 1,176</u> |
| \$ (39,532) | \$ - | \$ - | \$ 17,221 | \$ - | \$ (5,000) | \$ 900 | \$ (86,193) |
| (61) | 26 | 75,070 | (156,742) | 30,463 | 80,000 | 69,956 | 497,576 |
| <u>\$ (39,593)</u> | <u>\$ 26</u> | <u>\$ 75,070</u> | <u>\$ (139,521)</u> | <u>\$ 30,463</u> | <u>\$ 75,000</u> | <u>\$ 70,856</u> | <u>\$ 411,383</u> |
| | | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 70,856 | \$ 70,856 |
| - | - | - | - | - | - | - | 120,704 |
| - | - | - | - | - | - | - | 218,378 |
| - | 26 | 75,070 | - | 30,463 | 75,000 | - | 180,559 |
| <u>(39,593)</u> | <u>-</u> | <u>-</u> | <u>(139,521)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(179,114)</u> |
| <u>\$ (39,593)</u> | <u>\$ 26</u> | <u>\$ 75,070</u> | <u>\$ (139,521)</u> | <u>\$ 30,463</u> | <u>\$ 75,000</u> | <u>\$ 70,856</u> | <u>\$ 411,383</u> |

CITY OF CLARION, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | Enterprise | | |
|---|--------------------------|--------------------------|---------------------------|
| | Water Debt Service | Water Bond Reserve | CDBG Sanitary Sewer |
| Operating receipts: | | | |
| Charges for service | \$ - | \$ - | \$ - |
| Operating disbursements: | | | |
| Business type activities | - | - | - |
| Excess (deficiency) of operating receipts over (under) operating disbursements | \$ - | \$ - | \$ - |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | \$ - | \$ - | \$ 253,745 |
| Miscellaneous | - | - | - |
| Debt service | (102,395) | - | - |
| Capital projects | - | - | (409,290) |
| Net non-operating receipts (disbursements) | \$ (102,395) | \$ - | \$ (155,545) |
| Excess (deficiency) of receipts over (under) disbursements | \$ (102,395) | \$ - | \$ (155,545) |
| Other financing sources (uses): | | | |
| Transfers in | \$ 104,605 | \$ - | \$ 179,155 |
| Transfers out | - | (50,000) | - |
| Total other financing sources(uses) | \$ 104,605 | \$ (50,000) | \$ 179,155 |
| Change in cash balances | \$ 2,210 | \$ (50,000) | \$ 23,610 |
| Cash balances beginning of year | (2,954) | 50,000 | (24,540) |
| Cash balances end of year | \$ (744) | \$ - | \$ (930) |
| Cash Basis Fund Balances | | | |
| Assigned for sewer improvement | \$ - | \$ - | \$ - |
| Unrestricted | (744) | - | (930) |
| Total cash basis fund balances | \$ (744) | \$ - | \$ (930) |

See Accompanying Independent Auditor's Report.

| <u>Sewer Improvement</u> | <u>Landfill</u> | <u>Total</u> |
|------------------------------|-------------------------|--------------------------|
| \$ - | \$ 95,294 | \$ 95,294 |
| - | 87,908 | 87,908 |
| \$ - | \$ 7,386 | \$ 7,386 |
| \$ - | \$ - | \$ 253,745 |
| - | 201 | 201 |
| - | - | (102,395) |
| - | - | (409,290) |
| \$ - | \$ 201 | \$ (257,739) |
| \$ - | \$ 7,587 | \$ (250,353) |
| \$ 54,000 | \$ - | \$ 337,760 |
| (207,000) | - | (257,000) |
| \$ (153,000) | \$ - | \$ 80,760 |
| \$ (153,000) | \$ 7,587 | \$ (169,593) |
| 207,580 | 55,886 | 285,972 |
| <u>\$ 54,580</u> | <u>\$ 63,473</u> | <u>\$ 116,379</u> |
| \$ 54,580 | \$ - | \$ 54,580 |
| - | 63,473 | 61,799 |
| <u>\$ 54,580</u> | <u>\$ 63,473</u> | <u>\$ 116,379</u> |

CITY OF CLARION, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2016

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|--|--------------------------|-----------------------|---|
| General Obligation Bonds and Notes: | | | |
| Capital Loan Notes | 07-01-09 | 3.00 - 6.00 | \$ 925,000 |
| Capital Loan Notes | 06-01-10 | 2.90 - 4.00 | 301,000 |
| Capital Loan Notes | 08-28-08 | 2.85 - 4.30 | 1,335,000 |
| Capital Loan Notes | 07-17-12 | 2.45 | 100,000 |
| Storm Water Bonds | 04-01-13 | 1.50 - 2.50 | 716,000 |
| GO Annual Appropriation Bond | 06-26-14 | 1.75 - 4.00 | 1,185,000 |
| GO Annual Appropriation Bond | 06-26-14 | 1.75 - 4.00 | 1,485,000 |
| General Obligation Note | 07-15-15 | 2.50 | 81,000 |
| Urban Renewal Revenue Annual Appropriation Bonds and Notes: | | | |
| Refunding Bonds | 03-14-13 | 1.35 - 2.50% | \$1,213,000 |
| Revenue Bonds and Notes: | | | |
| Water Refunding | 02-06-13 | 1.25% | \$ 500,000 |
| Sewer Revenue Bonds | 09-04-15 | 2.75% | 6,200,000 |
| Rural Economic Development Loan Agreement | | | |
| | 11-21-05 | 0.00% | \$ 250,000 |
| Anticipatory Notes: | | | |
| Sewer Construction | 01-31-14 | 0.00% | \$ 156,618 |
| Subtotal - City's share | | | |
| Capital Lease: | | | |
| Meadows Facility | 12-01-92 | 5.50 - 8.00% | \$3,050,000 |
| Total indebtedness | | | |

See Accompanying Independent Auditor's Report.

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 700,000 | \$ - | \$ 45,000 | \$ 655,000 | \$ 39,188 | \$ - |
| 192,000 | - | 29,000 | 163,000 | 7,467 | - |
| 385,000 | - | 125,000 | 260,000 | 16,180 | - |
| 41,341 | - | 20,429 | 20,912 | 841 | - |
| 607,000 | - | 56,000 | 551,000 | 12,985 | - |
| 1,185,000 | - | - | 1,185,000 | 37,260 | - |
| 1,485,000 | - | - | 1,485,000 | 58,650 | - |
| - | 81,000 | 15,000 | 66,000 | 1,786 | - |
| <u>\$4,595,341</u> | <u>\$ 81,000</u> | <u>\$ 290,429</u> | <u>\$ 4,385,912</u> | <u>\$ 174,357</u> | <u>\$ -</u> |
| \$ 868,000 | \$ - | \$ 118,000 | \$ 750,000 | \$ 18,917 | \$ - |
| \$ 101,000 | \$ - | \$ 101,000 | \$ - | \$ 1,355 | \$ - |
| - | 5,117,455 | - | 5,117,455 | 76,634 | - |
| <u>\$ 101,000</u> | <u>\$5,117,455</u> | <u>\$ 101,000</u> | <u>\$ 5,117,455</u> | <u>\$ 77,989</u> | <u>\$ -</u> |
| \$ 25,000 | \$ - | \$ 25,000 | \$ - | \$ - | \$ - |
| \$ 119,038 | \$ 37,580 | \$ 156,618 | \$ - | \$ - | \$ - |
| <u>\$5,708,379</u> | <u>\$5,236,035</u> | <u>\$ 691,047</u> | <u>\$10,253,367</u> | <u>\$ 271,263</u> | <u>\$ -</u> |
| \$ 465,963 | \$ - | \$ 215,819 | \$ 250,144 | \$ 23,933 | \$ - |
| <u>\$6,174,342</u> | <u>\$5,236,035</u> | <u>\$ 906,866</u> | <u>\$10,503,511</u> | <u>\$ 295,196</u> | <u>\$ -</u> |

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2016

G E N E R A L O B L I G A T I O N

Capital Loan Notes

| Year Ending June 30, | Issued August 28, 2008 | | Issued June 1, 2010 | | Issued July 1, 2009 | |
|----------------------------|------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Interest | | Interest | | Interest | |
| | Rates | Amount | Rates | Amount | Rates | Amount |
| 2017 | 4.20% | \$125,000 | 4.90% | \$30,000 | 5.00% | \$ 45,000 |
| 2018 | 4.30 | 135,000 | 4.00 | 31,000 | 5.00 | 45,000 |
| 2019 | | - | 4.00 | 33,000 | 5.30 | 50,000 |
| 2020 | | - | 4.00 | 34,000 | 5.30 | 50,000 |
| 2021 | | - | 4.00 | 35,000 | 5.30 | 50,000 |
| 2022 | | - | | - | 5.75 | 55,000 |
| 2023 | | - | | - | 5.75 | 55,000 |
| 2024 | | - | | - | 5.75 | 55,000 |
| 2025 | | - | | - | 6.00 | 60,000 |
| 2026 | | - | | - | 6.00 | 60,000 |
| 2027 | | - | | - | 6.00 | 65,000 |
| 2028 | | - | | - | 6.00 | 65,000 |
| 2029 | | - | | - | | - |
| 2030 | | - | | - | | - |
| 2031 | | - | | - | | - |
| 2032 | | - | | - | | - |
| Total | | <u>\$260,000</u> | | <u>\$ 163,000</u> | | <u>\$ 655,000</u> |

REVENUE BONDS

Sewer

Issued September 4, 2015

| Year Ending June 30 | | | Year Ending June 30 | | |
|---------------------------|-------------------|-----------|---------------------------|-------------------|---------------------------|
| | Interest Rates | Amount | | Interest Rates | Amount |
| 2017 | 2.75% | \$130,000 | 2031 | 2.75% | \$ 197,000 |
| 2018 | 2.75 | 134,000 | 2032 | 2.75 | 203,000 |
| 2019 | 2.75 | 138,000 | 2033 | 2.75 | 209,000 |
| 2020 | 2.75 | 142,000 | 2034 | 2.75 | 216,000 |
| 2021 | 2.75 | 147,000 | 2035 | 2.75 | 222,000 |
| 2022 | 2.75 | 151,000 | 2036 | 2.75 | 229,000 |
| 2023 | 2.75 | 156,000 | 2037 | 2.75 | 235,000 |
| 2024 | 2.75 | 160,000 | 2038 | 2.75 | 243,000 |
| 2025 | 2.75 | 165,000 | 2039 | 2.75 | 250,000 |
| 2026 | 2.75 | 170,000 | 2040 | 2.75 | 257,000 |
| 2027 | 2.75 | 175,000 | 2041 | 2.75 | 265,000 |
| 2028 | 2.75 | 180,000 | 2042 | 2.75 | 273,000 |
| 2029 | 2.75 | 186,000 | 2043 | 2.75 | 93,455 |
| 2030 | 2.75 | 191,000 | | | |
| Total | | | | | <u>\$5,117,455</u> |

(continued)

B O N D S A N D N O T E S

| G.O. Bonds | | G.O. Notes | |
|----------------------|----------------------|---------------------|-----------|
| Issued July 17, 2012 | Issued April 1, 2013 | Issued July 15,2015 | |
| Interest | Interest | Interest | |
| Rates | Amount | Rates | Amount |
| 2.45% | \$ 20,912 | 1.50% | \$ 57,000 |
| - | - | 1.50 | 58,000 |
| - | - | 1.50 | 58,000 |
| - | - | 2.50 | 59,000 |
| - | - | 2.50 | 61,000 |
| - | - | 2.50 | 62,000 |
| - | - | 2.50 | 64,000 |
| - | - | 2.50 | 65,000 |
| - | - | 2.50 | 67,000 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| <u>\$ 20,912</u> | <u>\$551,000</u> | <u>\$66,000</u> | |

Urban Renewal Revenue Annual
Appropriation Refunding Bonds
Issued March 14, 2013

| Year | Issued March 14, 2013 | |
|--------------|-----------------------|-------------------|
| Ending | Interest | |
| June 30 | Rates | Amount |
| 2017 | 1.35% | \$ 124,000 |
| 2018 | 2.50 | 127,000 |
| 2019 | 2.50 | 130,000 |
| 2020 | 2.50 | 137,000 |
| 2021 | 2.50 | 74,000 |
| 2022 | 2.50 | 77,000 |
| 2023 | 2.50 | 81,000 |
| Total | | \$ 750,000 |

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2016

| G E N E R A L O B L I G A T I O N B O N D A N D N O T E S | | | | | |
|---|----------------------|---------------------------|----------------------|---------------------------|----------------------------|
| ANNUAL APPROPRIATION BONDS | | | | | |
| Year Ending June 30, | Issued June 26, 2015 | | Issued June 26, 2015 | | Total |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2017 | 1.75% | \$ 125,000 | -% | \$ - | \$ 418,912 |
| 2018 | 2.25 | 125,000 | - | - | 410,000 |
| 2019 | 2.60 | 130,000 | - | - | 288,000 |
| 2020 | 2.95 | 135,000 | - | - | 295,000 |
| 2021 | 3.35 | 135,000 | - | - | 281,000 |
| 2022 | 3.55 | 140,000 | - | - | 257,000 |
| 2023 | 3.90 | 145,000 | - | - | 264,000 |
| 2024 | 3.90 | 150,000 | - | - | 270,000 |
| 2025 | 3.90 | 100,000 | 3.25 | 100,000 | 327,000 |
| 2026 | - | - | 4.00 | 175,000 | 235,000 |
| 2027 | - | - | 4.00 | 185,000 | 250,000 |
| 2028 | - | - | 4.00 | 190,000 | 255,000 |
| 2029 | - | - | 4.00 | 195,000 | 195,000 |
| 2030 | - | - | 4.00 | 205,000 | 205,000 |
| 2031 | - | - | 4.00 | 215,000 | 215,000 |
| 2032 | - | - | 4.00 | 220,000 | 220,000 |
| Total | | <u>\$1,185,000</u> | | <u>\$1,485,000</u> | <u>\$ 4,385,912</u> |

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Receipts: | | | | |
| Property tax | \$1,143,811 | \$1,320,765 | \$1,264,613 | \$1,231,513 |
| Tax increment financing | 535,348 | 533,360 | 565,570 | 548,881 |
| Other city tax | 330,333 | 273,681 | 265,145 | 270,035 |
| Licenses and permits | 6,195 | 17,678 | 4,972 | 6,356 |
| Use of money and property | 80,513 | 93,242 | 138,006 | 116,946 |
| Intergovernmental | 467,970 | 538,796 | 685,895 | 354,932 |
| Charges for service | 316,809 | 296,765 | 219,900 | 346,682 |
| Special assessments | 5,491 | 15,891 | 18,747 | 26,024 |
| Miscellaneous | 150,334 | 184,206 | 107,748 | 141,000 |
| Total | <u>\$3,036,804</u> | <u>\$3,274,384</u> | <u>\$3,270,596</u> | <u>\$3,042,369</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 929,491 | \$ 813,259 | \$ 801,101 | \$ 889,130 |
| Public works | 465,237 | 444,418 | 471,554 | 457,082 |
| Health and social services | 5,500 | 5,500 | 5,500 | 6,269 |
| Culture and recreation | 295,206 | 290,904 | 331,491 | 313,813 |
| Community and economic development | 772,825 | 1,669,281 | 661,636 | 164,327 |
| General government | 268,927 | 228,475 | 201,945 | 207,396 |
| Debt Service | 706,137 | 858,420 | 763,495 | 1,858,014 |
| Capital projects | - | 235,985 | 802,375 | 347,357 |
| Total | <u>\$3,443,323</u> | <u>\$4,546,242</u> | <u>\$4,039,097</u> | <u>\$4,243,388</u> |

See Accompanying Independent Auditor's Report.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| \$1,091,808 | \$1,038,298 | \$1,010,658 | \$ 959,947 | \$ 910,621 | \$ 899,589 |
| 746,232 | 489,154 | 542,614 | 456,344 | 388,179 | 362,842 |
| 285,334 | 209,764 | 223,491 | 224,715 | 255,882 | 273,021 |
| 10,137 | 6,321 | 6,477 | 5,955 | 7,263 | 3,618 |
| 46,426 | 47,608 | 55,711 | 87,005 | 89,445 | 79,990 |
| 752,074 | 491,158 | 841,055 | 462,746 | 311,185 | 539,300 |
| 464,342 | 426,436 | 530,686 | 488,657 | 488,216 | 357,334 |
| 30,624 | 34,104 | 44,402 | 85,978 | 182,667 | 113,334 |
| 209,135 | 266,522 | 304,276 | 413,236 | 236,944 | 285,292 |
| <u>\$3,636,112</u> | <u>\$3,009,365</u> | <u>\$3,559,370</u> | <u>\$3,184,583</u> | <u>\$2,870,402</u> | <u>\$2,914,320</u> |
| \$ 992,386 | \$ 961,084 | \$ 885,732 | \$ 1,056,896 | \$ 732,866 | \$ 678,174 |
| 508,266 | 394,903 | 765,537 | 733,152 | 531,856 | 418,022 |
| 7,800 | 7,500 | 7,350 | 7,022 | 6,750 | 5,600 |
| 397,103 | 409,326 | 366,925 | 375,492 | 336,437 | 330,504 |
| 202,499 | 228,793 | 261,555 | 110,772 | 112,474 | 523,301 |
| 316,751 | 165,646 | 342,671 | 321,126 | 285,943 | 203,553 |
| 736,085 | 707,687 | 2,105,164 | 2,131,873 | 651,190 | 613,441 |
| 474,787 | 354,934 | 1,581,002 | 1,295,715 | 748,517 | 365,493 |
| <u>\$3,635,677</u> | <u>\$3,229,873</u> | <u>\$6,315,936</u> | <u>\$6,032,048</u> | <u>\$3,406,033</u> | <u>\$3,138,088</u> |



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated January 3, 2017. My report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles because the financial statements did not include the financial transactions of the Iowa Specialty Hospital - Clarion.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Clarion's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Clarion's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Clarion's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Clarion's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (E) and (G) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items (C), (D) and (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clarion's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Clarion's Responses to the Findings

The City of Clarion's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Clarion's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Clarion during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa
January 3, 2017

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted several checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

- (C) Post-dated Checks - I noted several checks that cleared the bank prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (D) Investment Control - A detailed record of investment transactions is maintained, however, the Treasurer's Report fund balances do not reconcile to the Clerk's fund balances.

Recommendation - The investments and fund balances should be reconciled to the Clerk's fund balances. This procedure will provide more accurate information on the balance available for each fund.

Response - We will include accurate information in the Clerk's report.

Conclusion - Response accepted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2016

Findings Related to the Financial Statements: - continued

- (E) Bank Reconciliations - Reconciliations of book balances to the bank accounts by fund were not prepared during the audit period.

Recommendation - To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared by the City. Any differences should be investigated and resolved in a timely manner.

Response - We will begin performing monthly reconciliations.

Conclusion - Response accepted.

- (F) Credit Cards - Documentation was not always available in support of credit card charges.

Recommendation - All credit card charges should be supported by original receipts or other supporting documents.

Response - We will include all receipts with the credit card statement in the future.

Conclusion - Response accepted.

- (G) Posting of Financial Transactions - The receipt and disbursement entries for the Sewer Revenue Bonds were not recorded properly in the general ledger.

Recommendation - Total receipts and disbursements should be recorded properly in the general ledger.

Response - We will do this in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting: - continued

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Lisa Hanson, Spouse owns Hanson and Sons Tire Service | Repairs | \$ 7,365 |
| Linda Lloyd, Spouse owns John's Cleaning Service | Cleaning | 6,885 |
| Shayne Henniger, Owner, Mobile Locksmith Co. | Supplies | 124 |
| Tiffon Willey, Spouse owns Willey's Wood Shop | Tree removal | 3,200 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Lisa Hanson, Linda Lloyd and Tiffon Willey may represent a conflict of interest since total transactions with each individual were greater than \$1,500 during the fiscal year and the transactions were not competitively bid. The transactions with Shayne Henniger do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - City staff will consult with the City Attorney on this matter.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- (6) City Council Minutes - No transactions were found that I believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of Code of Iowa. Also, the City did not publish a summary of receipts.

Recommendation - The City should publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting: - continued

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.
- (9) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.
- (10) Financial Condition - At June 30, 2016, the Capital Projects, CDBG Housing Project Fund had a deficit balance of \$39,593, the Capital Projects, Airport Fund had a deficit balance of \$139,521, the Enterprise, Water Debt Service Fund had a deficit balance of \$744 and the Enterprise, CDBG Sanitary Sewer Fund had a deficit balance of \$930.
- Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.
- Response - The deficits will be eliminated.
- Conclusion - Response accepted.
- (11) Debt Service Payments - The City made payments from the Debt Service Fund for expenditures other than interest and principal payments. Chapter 384.4 of the Code of Iowa establishes allowable expenditures from the Debt Service Fund.
- Recommendation - The City should only make interest and principal payments from the Debt Service Fund as required by the Code of Iowa.
- Response - We will do this.
- Conclusion - Response accepted
- (12) Sewer Revenue Bonds - The City did not establish the Sewer Bond Sinking Account as required by the bond resolution.
- Recommendation - The City should establish a sewer bond sinking account and make the necessary transfers as required by the resolution.
- Response - We will do this.
- Conclusion - Response accepted.